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MMARS Policy: Audit

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Auditor Independence

Executive Summary

Under the US General Accounting Office's auditor independence standard, auditors must not perform management functions, make management decisions, audit their own work, or provide non-audit services in situations where the services are material to the subject matter of the audit. Independence issues could arise if departments contract with the same outside firm for both auditing and consulting services.

Considerations

The independence standard makes Comptroller notification critical so that the Office of the Comptroller (CTR) can ensure that the standard is met, and that the audit work does not impact the statewide audit managed by CTR and conducted by the audit firm and the Office of the State Auditor (SAO).

Policy

To ensure that the Statewide Single Audit (SSA) does not conflict with the new auditor independence standards, and in accordance with the CTR's [Protocols for Audits, Audit Follow-up and Department Initiated Activity Policy](#), all departments must notify Deputy Comptroller Eric Berman of all plans to hire any audit firms for any reason, or any plans to hire the current SSA audit firm for any reason. In addition, departments should consult with CTR whenever they plan to engage any consulting firm for services if that firm is also providing audit work for that department. Instances may arise where that firm's work is relied upon for the Statewide Single Audit.

For example, an independence issue would arise if a firm performs a consulting engagement where the eligibility system for clients is modified. The same firm then performs an audit of the program, where eligibility is tested. In this instance, the firm would be auditing its own work, because the eligibility of clients, the subject of the audit, is material to the audit.

An example of a situation where there is no independence issue would be if a firm performs a consulting

engagement to construct a web portal with no financial transactions being performed through that portal. The same firm may then conduct a financial audit of the department with no independence issues.

Institutions of Higher Education that routinely hire auditors for financial statement audits, must not engage those firms without documenting the potential effect on the auditor's independence with the SSA. Firm duties that restrict independence include making management decisions, performing management functions, or providing non-audit services where those services are material to the subject of the audit.

In an effort to support department compliance with this standard, CTR placed a number of firms on statewide contract (#ST3H101, entitled *Ancillary Audit and Accounting Services*), where routine financial services are made available to users. Examples of these financial services include ancillary accounting, tax services, rate reviews, certain operational audits mandated by SAO, and utility audits. The statewide contract requires CTR review of all engagements to ensure auditor independence.

Internal Controls

In order to ensure statewide compliance with state and federal law, department procedures for engaging management and fiscal consultants should include a requirement to notify CTR.

Information Sources

- Related Procedure – None
- Legal Authority – [M.G.L. c7A](#); [U.S. General Accounting Office Standards](#)
- Attachments - [Protocols for Audits, Audit Follow-up and Department Initiated Activity Policy](#)
- Links – None
- Contacts – [CTR Help Desk](#)
- [Office of the State Comptroller Website](#)

Revisions

- November 1, 2006- Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.